LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6832 **DATE PREPARED:** Jan 13, 2001
BILL NUMBER: HB 1840 **BILL AMENDED:**

SUBJECT: Public Employees' Retirement Fund.

FISCAL ANALYST: James Sperlik
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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill: 1) decreases from ten to eight the number of years of creditable service necessary for normal retirement for members of the Public Employees' Retirement Fund (PERF) who retire after June 30, 2001; 2) decreases from 20 to 12 the number of calendar quarters used in determining the average annual compensation for the purpose of calculating pension benefits for PERF members who retire after June 30, 2001; and 3) increases from 1.1% to 1.5% the multiplier used in calculating pension benefits for PERF members who retire after June 30, 2001.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The total fiscal impact of this proposal is shown in the table below. The other tables show the impact for each of the component parts of the bill.

	State	Local Units	Total
Estimated Increase in Unfunded Accrued Liability	$677 M	$814 M	$1,491 M
Estimated Increase in Annual Funding	$82 M	$109 M	$191 M
Increase in Annual Funding as % of Payroll	6.6%	5.7%	6.1%

The funds affected are the State General Fund (55%), or $45.1 M of the $82 M increase in annual state funding, and various dedicated funds (45%), or approximately $36.9 M. The percentage splits represent the amount each fund contributes to the personal services of the State Budget.

These estimates are based on the July 1, 1999, actuarial valuation.

Component Costs -

1) Decrease from ten to eight years of creditable service -

	State	Local Unit	Total
Estimated Increase in Unfunded Accrued Liability	($1.5 M)	($1.7 M)	($3.2 M)
Estimated Increase in Annual Funding	$360,000	$980,000	$1.34 M
Increase in Annual Funding as % of Payroll	0.03%	0.05%	0.04%

2) Decrease in the number of calendar quarters used in determining the average annual compensation -

	State	Local Unit	Total
Estimated Increase in Unfunded Accrued Liability	$75 M	$91 M	$166 M
Estimated Increase in Annual Funding	$9 M	$12 M	$21 M
Increase in Annual Funding as % of Payroll	0.7%	0.6%	0.7%

3) Increase from 1.1% to 1.5% the multiplier used in calculating pension benefits -

	State	Local	Total
Estimated Increase in Unfunded Accrued Liability	$576 M	$693 M	$1,269 M
Estimated Increase in Annual Funding	$69 M	$91 M	$160 M
Increase in Annual Funding as % of Payroll	5.6%	4.8%	5.1%

Explanation of State Revenues:

Explanation of Local Expenditures: See tables, above.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Local agencies with members in PERF.

Information Sources: Doug Todd of McCready & Keene, actuaries for PERF, 576-1508.

DEFINITIONS

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding--a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.